



## **Dedicated Revenue Sources for Land Conservation in Virginia**

---

# **Study Mandate**

## **SJR 335 (2011 Session)**

JLARC to study long-term dedicated funding sources for land conservation and develop viable options for consideration in Virginia

---

## In Brief

Virginia's approach to funding land conservation emphasizes conserving acreage over priority land.

Options for dedicated revenue sources would provide a balanced funding approach and improve Virginia's ability to conserve priority land.

---

# In This Presentation

## Background

Assessment of Virginia's Funding Approach

Virginia Compared to Other States

Options for Dedicated Revenue Sources

---

# Land Is Conserved by Acquiring Full Legal Title or Conservation Easement

- Land conservation is the permanent protection of land from future development
- Two primary conservation methods
  - Full Legal Title: Landowner transfers all ownership rights
  - Conservation Easement: Landowner terminates certain development rights
- Voluntary decision by landowners

---

# Land Conservation Provides Benefits and Is State Policy

- Benefits include
  - Economic: Farms and forests, State parks
  - Recreational: State parks, public hunting land
  - Historical/Cultural: Civil War battlefields
  - Environmental: Open space, wildlife habitats, watersheds
- Land conservation established as State policy in *Constitution of Virginia* (Article XI)

---

## **Land Preservation Tax Credit (LPTC) Is Primary Land Conservation Program**

- Transferable tax credit for 40% of fair market value of donated land or easement
  - \$100 M cap on total credits issued per year, adjusted annually for inflation (\$111 M in 2012)
  - No limit on amount beneficiary can receive
  - Up to \$100,000 can be claimed annually for 10 years
- Donations must meet 1 of 8 conservation purposes

# Four Grant Programs Support Broad Range of Land Conservation Projects

Grant Program	Type(s) of Conservation
Virginia Land Conservation Foundation	Open space, parks, farmland, forests, natural or historic areas
Open-Space Lands Preservation Trust Fund	Open space, farmland, others
Civil War Battlefield Preservation Grants	Civil War battlefields
Farmland Preservation Grants	Farmland preservation by localities



---

## State Acquires Full Legal Title to Land for Public Use

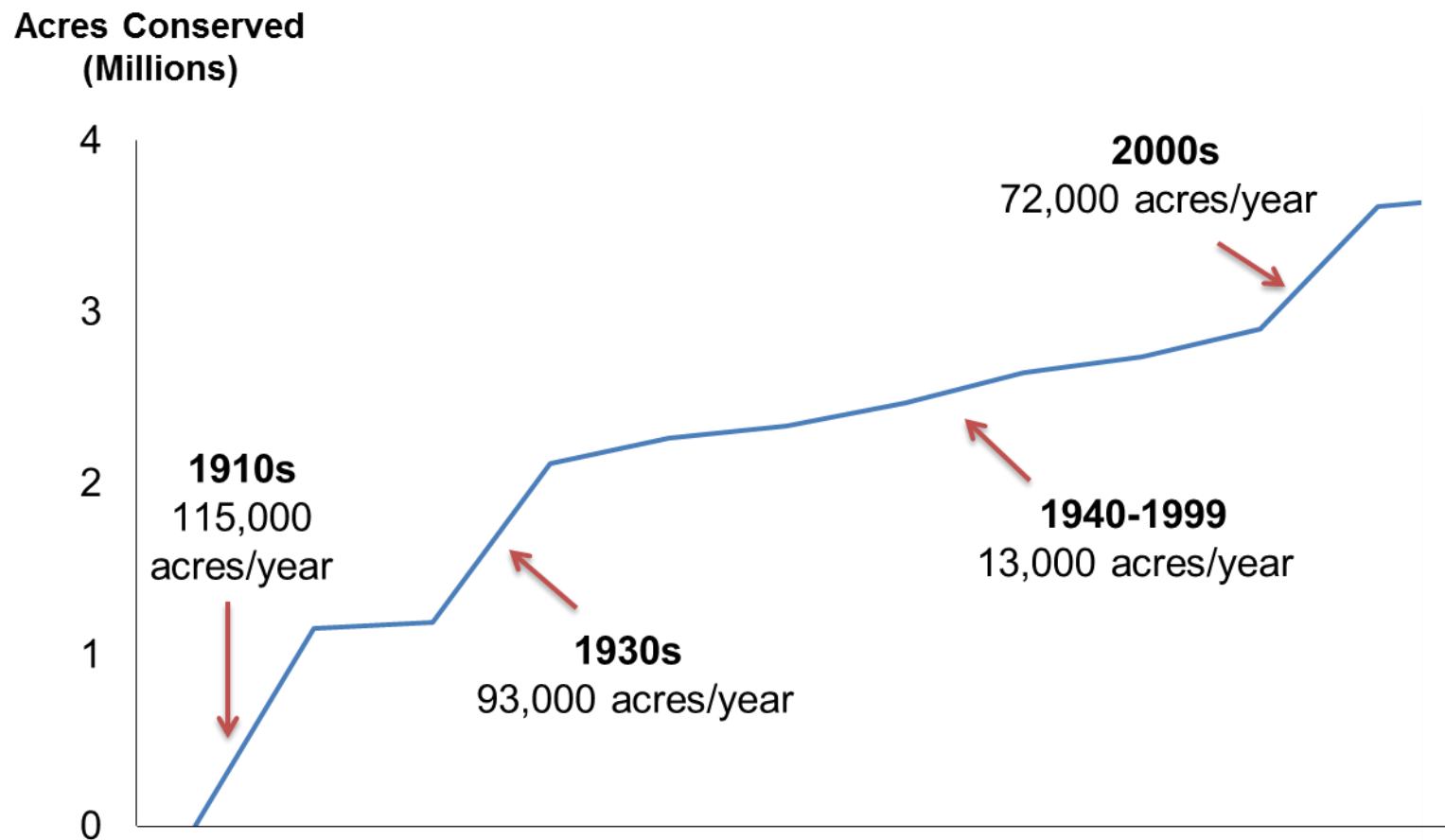
Type of Land	# of Properties	Total Acres
Wildlife management areas	39	203,000
State parks	35	120,000
State forests	22	67,920
Natural area preserves	60	50,580

---

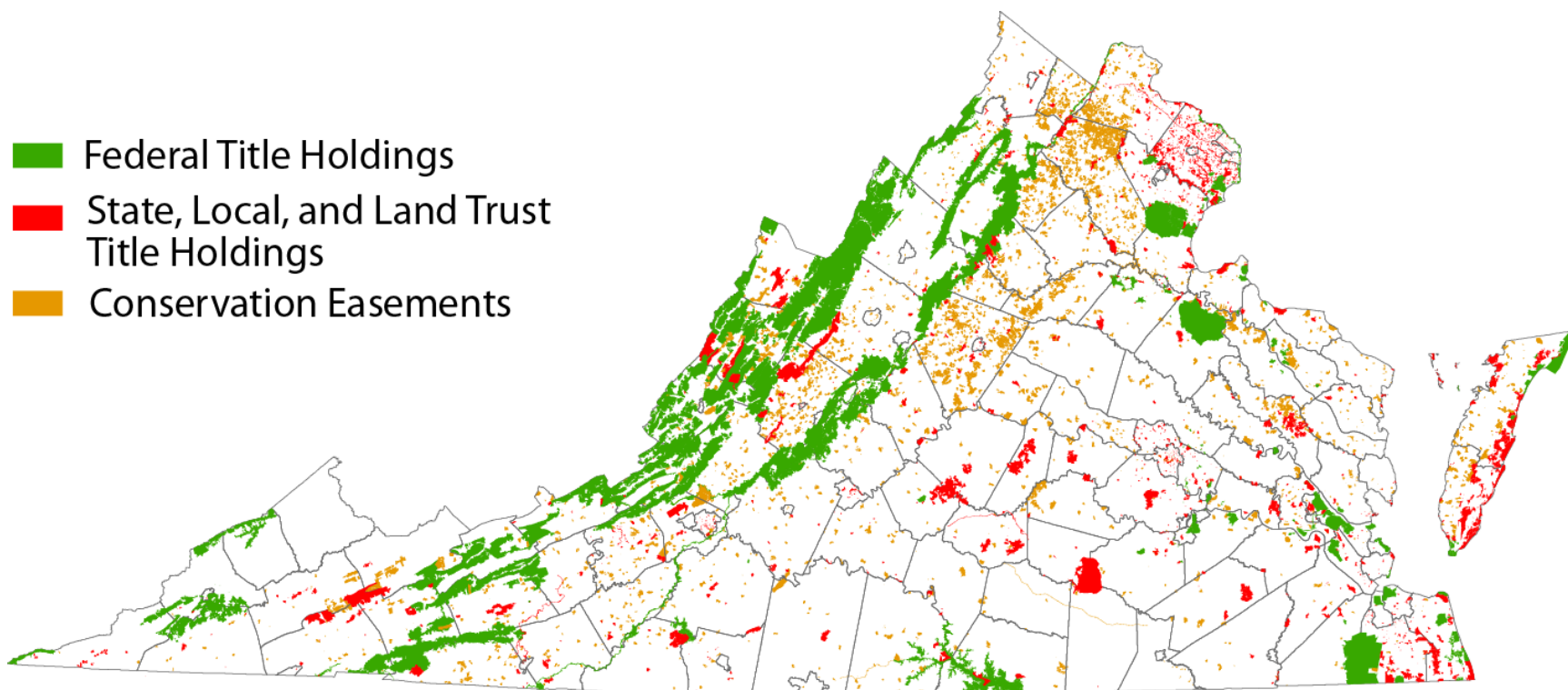
# State Land Conservation Goals Encourage Conserving Acreage and Priority Land

- Acreage goals
  - Governor's goal to conserve an additional 400,000 acres
- Priority lands
  - Land with public access (State parks, wildlife management areas)
  - Forestland in the Chesapeake Bay watershed
  - Civil War battlefields
  - Buffer areas

# Conserved Acreage Has Grown to 3.8 M, with Increased Rates in 1910s, 1930s, 2000s



# Conserved Land Is Concentrated in Certain Parts of Virginia



---

# In This Presentation

Background

**Assessment of Virginia's Funding Approach**

Virginia Compared to Other States

Options for Dedicated Revenue Sources

# Current Funding Approach Was Assessed Using Five Criteria

<b>Financial Criteria</b>	Allocation	% of land conservation revenue for <ul style="list-style-type: none"><li>• LPTC</li><li>• Grants</li><li>• Land acquisitions</li></ul>
	Stability	Change over time in financial support
	Cost Efficiency	Ability to <ul style="list-style-type: none"><li>• Minimize total conservation costs</li><li>• Leverage non-State funds</li></ul>
<b>Goal-Related Criteria</b>	Total Acreage	Ability to increase total land conserved
	Priority Land	Ability to conserve priority land

---

## Finding

Virginia's Land Preservation Tax Credit accounts for vast majority of financial support for land conservation.

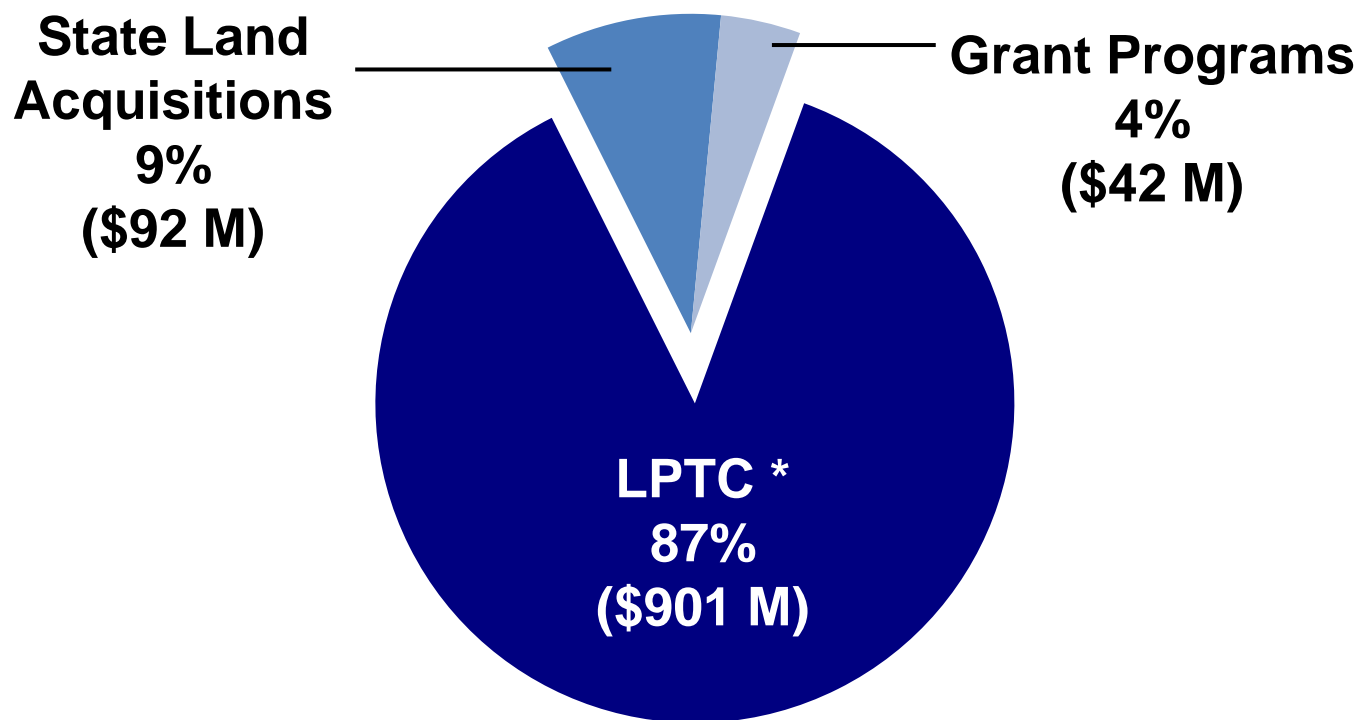
# Four Funding Sources Support Land Conservation Programs

Funding Source	Primary Program(s) Funded
Foregone income taxes	Land Preservation Tax Credit
Bonds	State land acquisitions
General revenue	Grant programs
Dedicated revenue	Stewardship of conserved land

- Less than 2% of revenue from dedicated sources (FY 2002-11)



# Land Conservation Expenditures Totaled \$1 B, Mainly Through LPTC (2002-11)



*\* Excludes approximately \$120 M in unclaimed, unexpired LPTC credits*

---

## Finding

Land conservation grant programs have received less stable financial support than the LPTC and State land acquisitions.

## Financial Support for LPTC Has Been Relatively Stable While Grant Funding Has Been Unstable and Difficult to Predict

Program	Average Annual % Change	# of Years Annual % Change > 50%	# of Years Funding Changed Direction
LPTC	4%	0	2
State Land Acquisitions	26	2	3
Grant Programs	148	5	4

*\* Data for 2002-2011*

---

# **Unstable Grant Funding Has Made Long-Term Conservation Planning Difficult**

- Stable, predictable funding allows
  - Landowners to wait for best time to conserve their land
  - State agencies and land trusts to take advantage of conservation opportunities as they arise
- Conservation opportunities were missed when future funding could not be guaranteed

---

## Finding

The LPTC has been a relatively cost-efficient conservation method, while the cost efficiency of grant and land acquisition programs has varied depending on their use.

---

## **LPTC Has Been a Relatively Cost-Efficient Conservation Method**

- LPTC minimizes conservation costs by
  - acquiring easements (98% of all LPTC donations)
  - leveraging landowner donations (60% of fair market value, 50% pre-2007)
- \$1.2 B in LPTC credits have conserved 560,000 acres with appraised market value of \$2.7 B

# Cost Efficiency of Grant and Land Acquisition Programs Has Varied

## Example of Program With Higher Cost Efficiency

### **Farmland Preservation Grants**

- Extensive leveraging of non-State funds
- Conservation easements

## Example of Program With Lower Cost Efficiency

### **State Land Acquisitions**

- Limited leveraging of non-State funds
- Full-title acquisitions
- Debt service costs

---

## Finding

The LPTC substantially increased Virginia's conservation rate, but has more limited ability to direct financial support toward priority land. As a result, Virginia's current funding approach emphasizes acreage over priority land.



# LPTC Enabled Virginia to Substantially Increase Its Conservation Rate

- Accounts for 76% of new acres conserved over last decade
- Critical to meeting statewide acreage goals

400,000-Acre Goal	% of Acres Receiving LPTC Credits
2006 – 2010	65%
2010 – 2014	98%

---

# **LPTC Has More Limited Ability to Direct Financial Support Toward Priority Land**

- Limited ability to conserve land at full cost or provide public access
  - Requires 60% donation from landowner
  - Public access often requires full title
  - Only 2% of LPTC donations were for full title
- Credits awarded first-come first-served in 8 categories
  - No guarantee conserved land will meet priorities
  - More than 70% of land is in Chesapeake Bay watershed

---

# **Grants and Land Acquisitions Can Better Direct Funds to Priority Land**

- Prioritize projects that best meet program criteria or conservation goals
  - Example: DCR grants awarded based on project ranking
- Can compensate landowners for full value of title or easement
  - Better able to conserve land for public access

# Summary of Virginia's Approach to Funding Land Conservation

	Financial Criteria			Goal-Related Criteria	
Program	Allocation	Stability	Cost Efficiency	Total Acreage	Priority Land
LPTC	High	High	High	High	Low
Land Acquisitions	Low	High	Varies	Low	High
Grants	Low	Low	Varies	Varies	High

---

# In This Presentation

Background

Assessment of Virginia's Funding Approach

Virginia Compared to Other States

Options for Dedicated Revenue Sources

---

## Virginia's Financial Support and Conservation Rate Have Been Average

	Per Capita Annual Financial Support	Annual Acres Conserved (per 10,000 persons)
Virginia ranking	16 <sup>th</sup>	26 <sup>th</sup>

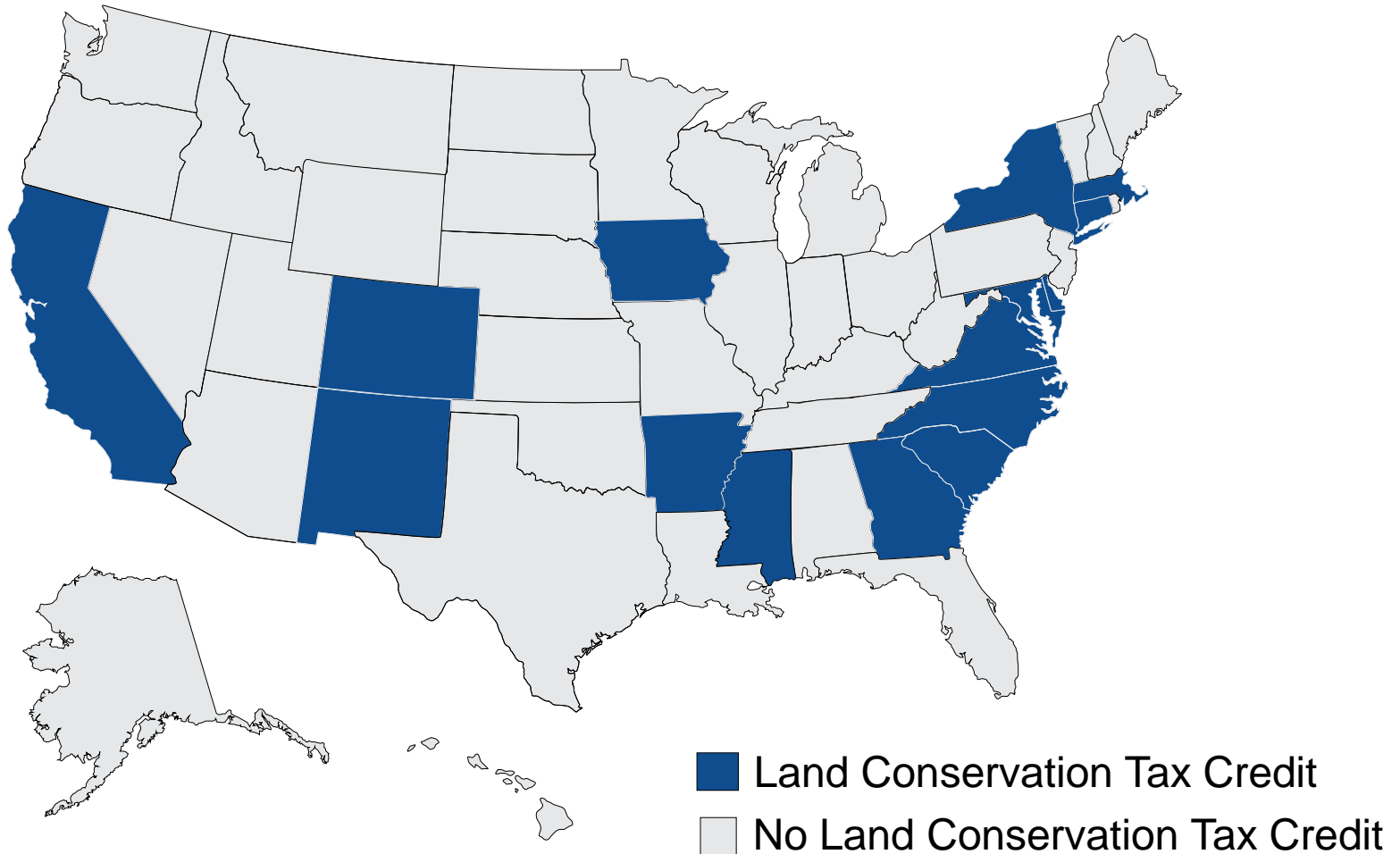
*\* Data for 1998-2005*

---

## Finding

Compared to Virginia, other states rely less on tax credits and more on grants and land acquisitions to support land conservation.

# Most States Do Not Have Land Conservation Tax Credits





---

## **LPTC Is Among Nation's Larger and More Valuable Tax Credit Programs**

- LPTC is one of the larger credits in overall expenditures
  - Met \$100 M cap every year since 2007
  - Credits in other states have substantially less fiscal impact
- LPTC is among the more valuable to a taxpayer
  - Depends on individual circumstances
  - Transferability can be critical

---

## Other States Rely More on Grants, Land Acquisitions, and Dedicated Revenue

- Pennsylvania: Relies solely on grant and land acquisition programs
  - Revenue mainly from dedicated sources (bonds, real estate transfer tax, cigarette tax)
- North Carolina: Relies mainly on grant and land acquisition programs
  - Land conservation tax credit: ~ \$20 M
  - Grants and land acquisitions: ~ \$170 M
  - Dedicated revenue sources: Real estate transfer tax, personalized license plate fee

---

# In This Presentation

Background

Assessment of Virginia's Funding Approach

Virginia Compared to Other States

**Options for Dedicated Revenue Sources**

---

# Virginia Could Continue Current Funding Approach or Adopt Balanced Funding Approach

- Continue current funding approach
  - Allocates high share of revenue to LPTC
  - Emphasizes acreage over priority land
- Adopt balanced funding approach
  - Allocates greater share of revenue to grants and land acquisitions
  - Increases emphasis on priority land
  - Is potentially less cost-efficient and slows overall conservation rate

---

## **Two Dedicated Revenue Options Would Have Minimal Financial Impact**

- Two options would result in
  - minimal financial impact
  - improved ability to preserve priority land
  - more stable funding

---

## **Option 1: Dedicate General Revenue to Grants and Acquisitions at Current Funding Levels**

- Provides more stable revenue at current funding levels
  - Avoids interest costs of bonds
- Dedicate revenue at average annual funding levels
  - Grants: \$4.2 M
  - Land Acquisitions: \$9.2 M
- General revenue source options
  - State sales and use tax
  - State recordation tax

---

## **Option 2: Redirect Financial Support From LPTC to Grants and Land Acquisitions**

- Provides a more balanced funding approach by redistributing existing revenue
- Reduce annual cap on LPTC credits issued
  - Example: \$10 M reduction returns cap near original \$100 M
- Dedicate ~ \$10 M in general revenue to grants and land acquisitions

---

## **Redirecting LPTC Funds Would Increase Emphasis on Priority Land but May Slow Overall Conservation Rate**

- Redirecting \$10 M would nearly double annual funding for other programs
- Would slow rate of conservation donations and may reduce overall conservation rate
- Redirecting substantial amount could limit access to LPTC for small landowners



---

# Redirecting Financial Support From LPTC Would Need To Be Phased-In

- Minimizes fiscal impact
  - Step 1: Reduce annual cap on credits issued
  - Step 2: Gradually redirect financial support as fewer credits are claimed
- 50% of reduced cap could be redirected in first year, 75% by third year

# Summary Impact of Options 1 and 2

Option	Impact: Goals		Impact: Financial				
	Total Acreage	Priority Land	Available Revenue	Taxpayers	Allocation	Stability	Cost-Efficiency
1. Dedicate revenue to grant and land acquisition programs	●	↑	●	●	↑	↑	↑
2. Redirect financial support from LPTC	↓	↑	●	●	↑	↑	↑/↓

Impact:      None    ●                      Positive    ↑                      Negative    ↓

---

## **Two Dedicated Revenue Options Would Result in Moderate Amount of Additional Funding**

- Two options would result in
  - moderate financial impact
  - improved ability to preserve priority land
  - increased percentage of funds allocated to grant and land acquisition programs
  - negative impact on certain taxpayers to varying degrees

---

## **Option 3: Increase Fee on Transferred LPTC Credits**

- Expands existing dedicated revenue source for land conservation
  - Current fee supports LPTC administration and land stewardship
- Additional revenue could be dedicated to grants and land acquisitions

---

## **Increased Transfer Fee Could Provide Moderate Revenue but Reduces Credit Value**

- Each percentage point increase in fee could provide \$980 K in annual revenue
- Reduces net value of transferred credit (currently 75%)
  - Increases average transfer cost by \$4,700
- Could make LPTC less attractive for some landowners
  - Transferability important for landowners with limited tax liability

---

## **Option 4: Increase \$1 Deed Recordation Fee and Collect Statewide**

- Expands existing dedicated revenue source
  - \$1 Open Space Preservation fee assessed in most localities and supports land stewardship
- Could increase fee and/or expand to all localities

---

## **Expanding \$1 Fee Provides Moderate Revenue but Increases Recordation Costs**

- Each \$1 increase to fee collected statewide
  - \$680 K in additional revenue annually
  - \$1 cost to taxpayers recording 40 types of deeds
- Current recordation fees in Virginia
  - Conveyance deeds: \$43
  - Trust deeds: \$37
- Current recordation fees in Virginia are higher than 37-42 states

# Summary Impact of Options 3 and 4

Option	Impact: Goals		Impact: Financial				
	Total Acreage	Priority Land	Available Revenue	Taxpayers	Allocation	Stability	Cost-Efficiency
3. Increase LPTC transfer fee	↑	↑	↑	↓	↑	●	↑
4. Increase and expand \$1 Open Space Preservation Fee	↑	↑	↑	↓	↑	●	↑

Impact:      None    ●      Positive    ↑      Negative    ↓



---

## **Two Dedicated Revenue Options Would Result in Substantial Amount of Additional Funding**

- Two options would result in
  - substantial financial impact
  - improved ability to preserve priority land
  - increased percentage of funds allocated to grant and land acquisition programs
  - negative impact on certain taxpayers to varying degrees

---

## **Option 5: Authorize Additional Bonds for Land Acquisition**

- Prior bond authorizations have supported land conservation
  - General obligation bonds: 1992, 2002
  - Virginia Public Building Authority bonds: 2002, 2008
- Could include \$40 M for land conservation in future bond
  - Keeps land conservation's share of tax-supported debt at ~ 5%

---

## **Bonds Could Provide Substantial Revenue but Have Interest Costs and Reduce Debt Capacity**

- Bond proceeds could support land acquisition and development
  - State parks, wildlife management areas, others
- \$16-26 M in total interest costs for \$40 M bond
- State's debt has grown substantially in recent years
- Reduces State's debt capacity

---

## **Option 6: Dedicate Recordation Tax Revenue to Grants and Land Acquisitions**

- Real estate taxes/fees are a common revenue source for land conservation
- Could be implemented in two ways
  - Divert existing revenue
  - Apply a surcharge
- Current recordation tax rates
  - State recordation: 25¢ per \$100
  - Grantor's: 50¢ per \$500

---

## Recordation Taxes Could Provide Substantial Revenue but Have Negative Impacts

- Diverting 1¢ or adding 1¢ surcharge could provide
  - Recordation tax: \$13.0 M annually
  - Grantor's tax: \$1.1 M annually
- Diverting revenue would be at general fund's expense
- 1¢ surcharge would increase recordation costs by \$4 or \$36 for average home

# Summary Impact of Options 5 and 6

Option	Impact: Goals		Impact: Financial				
	Total Acreage	Priority Land	Available Revenue	Taxpayers	Allocation	Stability	Cost-Efficiency
5. Authorize additional bonds	↑	↑	↑	↓	↑	●	↓
6. Dedicate State recordation tax revenue	↑	↑	↑	↓	↑	↑ / ↓	↑

Impact:      None    ●      Positive    ↑      Negative    ↓

---

## **Illustrative Option Combines Multiple Dedicated Revenue Sources**

- Final, illustrative option would result in
  - moderate financial impact
  - smaller negative impact spread among wider range of taxpayers
  - improved ability to preserve priority land
  - increased percentage of funds allocated to grant and land acquisition programs

## Option 7: Use Multiple Revenue Sources to Lower Financial Impact on Taxpayers

Illustrative Option	Estimated Annual Revenue (\$ M)
1/10¢ recordation surcharge/diversion	\$1.3
0.25% increase in LPTC transfer fee	0.3
50¢ increase in \$1 deed recordation fee	0.4
Interest on Virginia Land Conservation Fund	0.2
\$2 annual conservation stamp (hunters, anglers)	1.2
5% surcharge on State park fees	0.8
<b>Total Estimated Annual Revenue</b>	<b>\$4.2</b>



---

## Key Findings

- Virginia's funding approach emphasizes the conservation of acreage over priority land.
- Compared to Virginia, other states rely more on grants and land acquisitions to support land conservation.
- Dedicated revenue source options could provide a balanced funding approach.

---

# **JLARC Staff for This Report**

Justin Brown, Division Chief

Jamie Bitz, Project Leader

Lauren Axselle

Nia Harrison

## **For More Information**

<http://jlarc.virginia.gov>

(804) 786-1258